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TO RUEHC/SECSTATE WASHDC 3851
INFO RUCPDOC/USDOC WASHDC
RUEHGV/USMISSION GENEVA 1254
RUEHNE/AMEMBASSY NEW DELHI 9794
RUEHKA/AMEMBASSY DHAKA 9319
RUEHIL/AMEMBASSY ISLAMABAD 6215
RUEHKT/AMEMBASSY KATHMANDU 4250
RUEHCG/AMCONSUL CHENNAI 6765
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UNCLAS SECTION 01 OF 02 COLOMBO 001160

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SENSITIVE

E.O 12958: N/A
TAGS: ECON ECPS ETRD EFIN SCUL CE
SUBJECT: NEW TAX ON FOREIGN BROADCASTING COULD CRIPPLE POPULAR
FOREIGN TV PROGRAMMING

REF: (A) Colombo 534 (B) Colombo 1142

¶1. (U) Summary: The Sri Lankan government (GSL) has imposed a hefty tax exclusively on foreign commercials, television programs, and movies distributed via television. Private TV stations say they will go out of business as a result. The two most prominent foreign media involve Hindi and English programming. Perhaps the greatest impact of the tax burden will affect Hindi tele dramas which are extremely popular among local audiences. The tax does not cover foreign films shown in movie theatres. Post anticipates that this tax will lead to less foreign programming but will do little to resurrect Sri Lanka's dying film industry. A new advance approval requirement also raises concern about potential undue GSL influence over the media. The new tax comes at a time when local satellite TV companies are encountering other problems with the government (Ref B). End Summary.

A CRIPPLING TAX FOR ENGLISH PROGRAMMING

¶2. (SBU) On June 28, President Mahinda Rajapakse signed into law a tax on foreign television programs and commercials. As reported in Ref A, the tax aims to assist the local film and teledrama industry. On July 6, the tax was formally announced at a special media briefing chaired by the Treasury Secretary. The tax will be charged at the rate of Rs 75,000 (approx. USD 750) for each 30 minute block of television programming. Programs dubbed in Sinhala or Tamil, the two national languages, will be taxed at an even higher rate of Rs 90,000 (approx. USD 900), per 30 minutes. This is not a one-time fee. All repeat telecasts will be subject to the same tax. The tax must be paid and the Secretary of the Media Ministry notified two weeks prior to the telecast of the scheduling of each program and episode. Foreign commercials will be taxed at Rs one million (approximately USD 10,000) per commercial per year. The tax comes into effect on July 16.

EXCLUSIONS

¶3. (U) The regulation excludes children's programs, educational programs, documentaries, sports, award winning films, international events, Tamil films and television series, and films made in Sri Lanka with a majority Sri Lankan cast/production crew. The tax does not cover foreign films shown in movie theatres. According to a Media Ministry source, it has not yet been determined whether the

tax will be extended to cable and satellite broadcasts. Post received its first call on July 13 for assistance in locating free programming that would fall within these exclusions.

ADVANCE APPROVAL REQUIRED: NEW CENSORSHIP MOTIVATIONS?

¶4. (SBU) In addition to the tax, the telecast of all foreign movies, TV series and commercials will now require prior approval from the Secretary to the Media Ministry. (Note: Given the lethargy of government institutions here, this approval requirement could greatly delay programming. Additionally, this requirement raises serious concerns about increased government control of the media. End Note.)

TARGETED LANGUAGES?

¶5. (SBU) The two most prominent foreign media languages are Hindi (which is popular islandwide) and English (which tends to be watched by the expatriates and the more educated, English-speaking urban segments of society). Perhaps the greatest impact of the tax burden will affect Hindi teledramas, which are extremely popular among Sinhala-speaking audiences, and perceived by the local industry as its greatest threat to survival.

LOBBYING EFFORTS DID NOT ACHIEVE DESIRED RESULTS

¶6. (U) After the proposal to tax foreign programs was first announced last December, the Embassy made representations to various levels of government including the Finance Ministry, which was responsible for drafting regulations and had the final say in defining the tax. At that time, we commented about the high cost it would put on foreign film programming, the likely reduction in consumer choice, and the negative impact reduced English programming

would have on government efforts to promote English in Sri Lanka. Responses have ranged from simply noting our concerns to attempting to persuade us with the logic of the new tax to dismissing our concerns by claiming that the broadcasters could simply pass on the hefty liability to their advertisers.

ENGLISH PROGRAMMING POTENTIALLY UNSUSTAINABLE

¶7. (SBU) Sri Lanka has three 100 percent English language channels: ETV, ART TV and MTV (not the music channel). The majority of the content aired on these channels is imported from major studios and independent producers in the US. TV station representatives say the tax is excessive and they will no longer be able to continue in business if they were forced to pay taxes at this rate. According to Lakshman Bandaranayake, Managing Director of Vanguard Management Services, which manages ETV, the license fees from production companies range from $200 to $600 for sitcoms, dramas and movies, and he could not see any business sense in paying an even higher tax ($750) to the government. Bandaranayake was surprised to learn of the tax announcement, as ETV had received verbal assurances from the GSL that the English language channels would be excluded, since they cater to a limited English speaking audience. Bandaranayake also said that the tax is excessive because the ETV's geographic coverage is limited and therefore the clients are a narrow segment of the market. (Note: Because of this limited audience, his ability to increase advertising fees is severely limited. End Note.)

¶8. (SBU) EconOff had also heard several months ago that the English broadcasts may be exempted. But just before the recent announcement, T. L. Weerasinghe, the Finance Ministry's tax advisor told the Econ FSN that his Ministry contemplated the issues noted above, but could only exclude foreign Tamil languages programs, as Tamil is a "national language" and there is a large Tamil community in the country.

¶9. (SBU) Comment: The new tax comes at a time when local satellite TV companies are encountering other problems with the government (Ref B). It looks less like a revenue producing measure, and more like a punitive measure against foreign entertainment perhaps motivated by cultural xenophobia. It remains to be seen whether any of this tax revenue will actually get into the hands of those who

produce films in Sri Lanka's dying film industry. Moreover, it could herald growing government control over private media. We anticipate that this tax will be high in our agenda in the upcoming Trade and Investment Framework Agreement (TIFA) talks with the GSL.

ENTWISTLE